



**DEPARTMENT OF INSURANCE, FINANCIAL
INSTITUTIONS AND PROFESSIONAL REGISTRATION**

P.O. Box 690, Jefferson City, Mo. 65102-0690

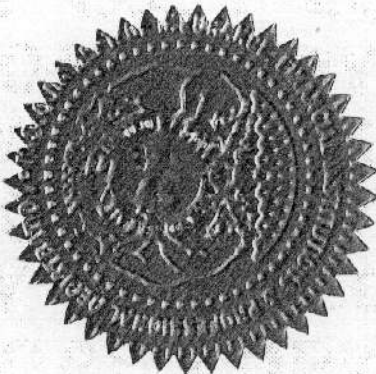
RE: Examination Report of Lyndon Property Insurance Company as of December 31, 2006

ORDER

After full consideration and review of the report of the financial examination of Lyndon Property Insurance Company for the period ended December 31, 2006, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Douglas M. Ommen, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, the findings and conclusions of the examination report are incorporated by reference and deemed to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo.

Based on such findings and conclusions, I hereby ORDER Lyndon Property Insurance Company, to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with, each item mentioned in the General Comments and/or Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this May 6, 2008.



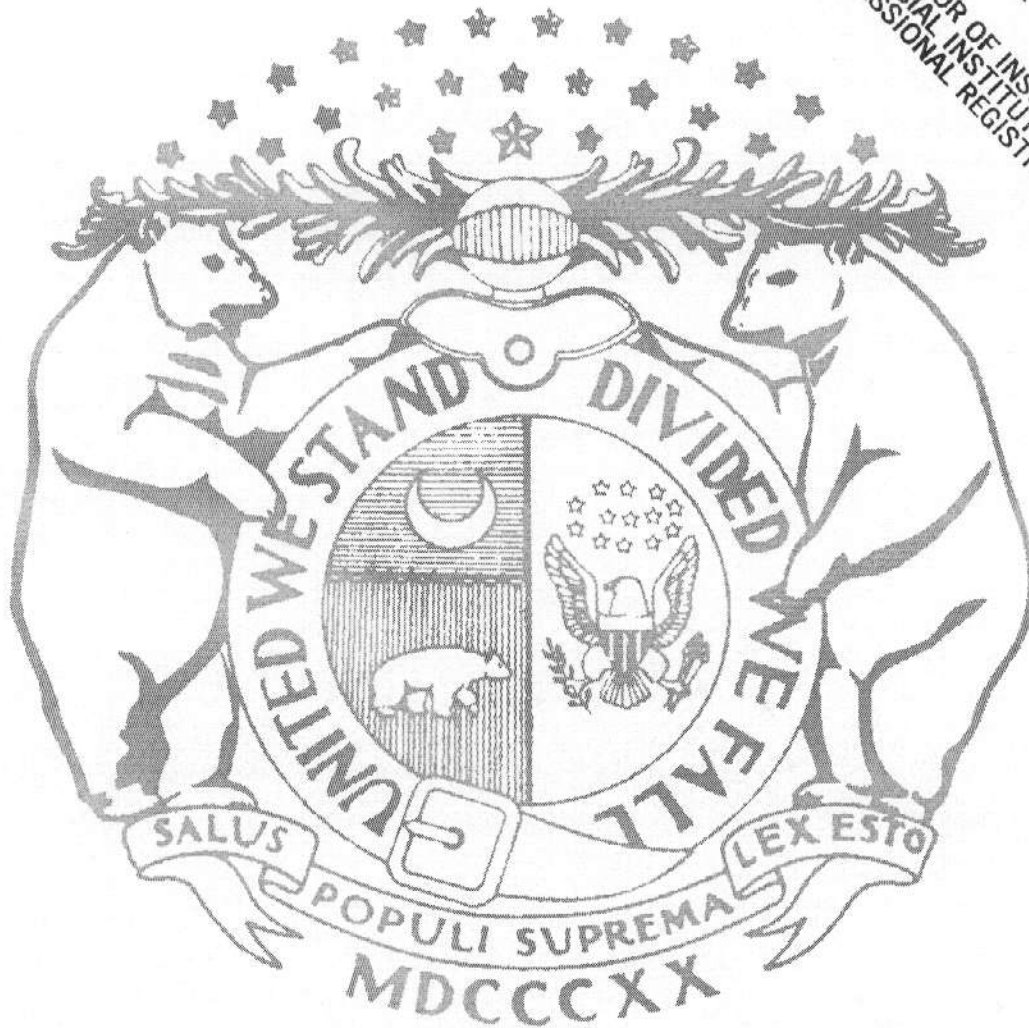
DOUGLAS M. OMMEN, Director
Department of Insurance, Financial Institutions
and Professional Registration

REPORT OF
FINANCIAL EXAMINATION

LYNDON PROPERTY INSURANCE COMPANY

As Of
December 31, 2006

FILED
MAY 16 2008
DIRECTOR OF INSURANCE &
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION



STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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April 15, 2008
St. Louis, Missouri

Honorable Alfred W. Gross, Commissioner
State Corporation Commission
Bureau of Insurance
Commonwealth of Virginia
Chair of the NAIC Financial Condition (E) Committee

Honorable Merle D. Scheiber, Director
Division of Insurance
State of South Dakota
Secretary, Midwestern Zone, NAIC

Honorable Douglas M. Ommen, Director
Department of Insurance, Financial Institutions and Professional Registration
301 West High Street, Room 630
Jefferson City, MO 65101

Dear Madam and Sirs:

In accordance with your financial examination warrant, a comprehensive financial examination has been made of the records, affairs and financial condition of

LYNDON PROPERTY INSURANCE COMPANY

hereinafter referred to as such or as "Lyndon" or as the "Company." The Company's statutory home office is located at 14755 North Outer Forty Road, Suite 400, Chesterfield, Missouri 63017, telephone number (636) 536-5600. This examination began on August 20, 2007 and concluded on February 22, 2008.

SCOPE OF EXAMINATION

Period Covered

The last full scope association financial examination of the company was made as of December 31, 2003 by examiners from the state of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC) with no other zones participating.

The current full scope association financial examination covers the period from January 1, 2004 through December 31, 2006 and was conducted by examiners from the state of Missouri representing the Midwestern Zone of the NAIC with no other zones participating.

This examination also included material transactions or events occurring subsequent to December 31, 2006.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Department of Insurance, Financial Institutions and Professional Registration (the "Department") or statutes of the state of Missouri prevailed.

COMMENTS PRIOR EXAMINATION

Listed below are the comments taken from the prior examination report as of December 31, 2003. The Company's responses and each item's current status are also included.

Comment: Reinsurance Ceded to Affiliates

"The Company and its affiliates should review their practices and procedures to ensure that funds are promptly collected, disbursed and recorded correctly. The annual statement including Schedule F should be completed in accordance with the Accounting Practices and Procedures Manual and Annual Statement Instructions. The data necessary to complete the statutory examination must be readily available. In addition, the custodial accounts be should established and maintained as required under the reinsurance agreements."

Company response:

"We have reviewed our practices and procedures concerning the monitoring and recording of reinsurance ceded and have implemented procedures to ensure that Schedule F is completed in accordance with the Accounting Practices and Procedures Manual and Annual (Statement) Instructions. The problems noted in the exam were corrected in the 2005 Annual Statement."

Current findings:

The Company appears to have completed Schedule F in accordance with the Annual Statement Instructions.

Comment: Custodial Agreements

"The Company should require that agreements with Bank of New York and Royal Bank of Canada contain all the necessary provisions to be consistent with the requirements of the Financial Condition Examiners Handbook. Otherwise, those agreements that do not comply should be disclosed in the General Interrogatories under question 23.02 along with explanations why the agreements don't comply."

Company response:

"It was noted that two custodial agreements, Bank of New York and Royal Bank of Canada, did not contain all of the necessary provisions to be consistent with the requirements of the Financial Condition Examiners Handbook. Enclosed is an amendment for the Bank of New York agreement to bring it into compliance. We determined that the Royal Bank of Canada agreement should be reported in Schedule E and not be included in Interrogatory #24. This was corrected in 2005."

Current findings:

The Company's amended agreement with Bank of New York complies with the provisions cited in the prior exam. The special deposits held by Royal Bank of Canada have been included on Schedule E.

Comment: Uncollected Premiums and Agents' Balances

"The Company should take actions to ensure that the payment terms of the agreements with producers are met in a timely manner. The company should implement controls that would ensure records, showing the aging of receivables and an analysis of the collectability of those receivables, are available for review during financial examinations."

Company response:

"The Company is monitoring the timely remittances of its producers and reviewing the collectability of its receivables. Historically, write-offs related to uncollectible premiums from producers have been immaterial."

Current findings:

Remittances from producers appear to be received in a timely manner.

HISTORY

General

Lyndon Property Insurance Company was incorporated on May 30, 1978 as a stock casualty insurance company and commenced business on August 1, 1978. Until May 1995, the Company was wholly owned by ITT Financial Corporation, a wholly owned subsidiary of ITT Corporation. On May 1, 1995, ITT Financial Corporation merged with ITT Corporation.

On October 20, 1995, Mercury Finance Company acquired all the outstanding common stock of ITT Lyndon Property Insurance Company. On December 1, 1995, the name of the Company was changed to Lyndon Property Insurance Company.

In June 1997, Frontier Insurance Group, Inc. purchased all the outstanding common stock of the Company. In 1998, Frontier Insurance Group, Inc. formed a wholly owned subsidiary, Lyndon Insurance Group, Inc., and contributed all the outstanding stock of the Company to the wholly owned subsidiary.

On January 20, 2000, Protective Life Insurance Company, a wholly owned subsidiary of Protective Life Corporation, purchased all the outstanding common stock of Lyndon Insurance Group, Inc.

Capital Stock

The Company is authorized to issue 4,000 shares of common stock at a par value of \$1,000 per share. There were 4,000 common shares issued and outstanding as of December 31, 2006, resulting in a common capital stock account of \$4,000,000 and gross paid in and contributed surplus of \$80,708,443.

Dividends

The Company has declared and paid dividends to stockholders as follows:

	<u>Cash</u>	<u>Stock</u>
Prior to 2004	\$ 179,663,543	\$ 2,000,000
2004	-	-
2005	-	-
2006	<u>40,000,000</u>	<u>-</u>
Total	<u>\$ 219,663,543</u>	<u>\$ 2,000,000</u>

Management

The board of directors, consisting of nine members elected at the annual stockholder meeting, manages the Company's affairs as authorized by the Articles of Incorporation and the Bylaws. The directors serving as of December 31, 2006 were as follows:

<u>Name</u>	<u>Principal Occupation</u>
Brent Griggs St. Louis, MO	President and Chief Executive Officer
Gregg Cariolano St. Louis, MO	Treasurer and Chief Financial Officer
Mark Downar Ballwin, MO	Vice-President and Assistant Treasurer
Lori Hallissey Gurney, IL	Vice-President of Policy Administration
Quentin McClung Ballwin, MO	Senior Vice-President of Product Management
C. Alan Miller Chesterfield, MO	Senior Vice-President of National Accounts
Robert Dickey Wildwood, MO	Vice-President of Risk Management
Richard Hackett Ballwin, MO	Senior Vice-President of Legal
M. Scott Karchunas Chesterfield, MO	Senior Vice-President of Dealer Sales

In accordance with the Bylaws, the board has established an executive committee with responsibility for managing the Company's affairs between meetings of the board. On a quarterly basis, the full board reviews and approves the actions of the executive committee. At December 31, 2006, Brent Griggs and Gregg Cariolano served on the executive committee.

Officers elected and serving as of December 31, 2006 were as follows:

<u>Name</u>	<u>Office</u>
Brent Griggs	Chairman of the Board, Chief Executive Officer and President
Richard Hackett	Senior Vice-President and Secretary
Gregg Cariolano	Senior Vice-President, Chief Financial Officer, Controller and Treasurer
Quentin McClung	Senior Vice-President of Product Management
C. Alan Miller	Senior Vice-President of National Accounts
M. Scott Karchunas	Senior Vice-President of Dealer Sales
Deborah Long	General Counsel
Richard Bielen	Vice-President of Investments
Lori Hallissey	Vice-President of Policy Administration
Carl Thigpen	Vice-President of Investments
Steven Walker	Vice-President
Mark Whiting	Vice-President and Assistant Secretary
Mark Downar	Assistant Treasurer and Assistant Secretary
Jerry Hyche	Assistant Secretary
Charles Evers	Assistant Secretary
Pamela Gordon	Assistant Secretary
Wayne Holdredge	Appointed Actuary

Conflict of Interest

Conflict of interest disclosure statements are executed annually by all Company directors and officers. Disclosure statements covering the years under examination were reviewed; no material conflicts were indicated.

Corporate Records

The Company's Articles of Incorporation were amended and restated in 2005, expanding the Company's specific purposes, objects and powers delineated in Article III. The amended Articles were approved by the board, adopted by the shareholder and certified by the Missouri Secretary of State. The Company also amended and restated its Bylaws in 2005, making various administrative changes. The amended bylaws were properly approved by the board of directors and adopted by the shareholder.

The minutes of the meetings of the stockholder, the board of directors and the executive committee were reviewed for the period under examination. The minutes appeared to properly document and approve corporate events and transactions.

Acquisitions, Mergers and Major Corporate Events

On March 19, 2004, the Company received \$13.8 million from the sale of Acceleration Life Insurance Company. The Company received \$2.7 million from the sale of Insurance Company

of the South on October 5, 2004. The Company's wholly owned subsidiary, Lyndon General Agency of Texas, Inc., was dissolved effective April 25, 2005. On January 1, 2006, the Company received \$5.9 million from the sale of Lyndon Southern Insurance Company.

On June 29, 2004, the Company received a \$4 million dividend from Lyndon Financial Corporation, a wholly owned subsidiary. The Company received a \$2.1 million dividend from Lyndon Southern Insurance Company on December 28, 2005. On November 8, 2006, the Company received a capital contribution of \$28 million.

Surplus Debentures

None.

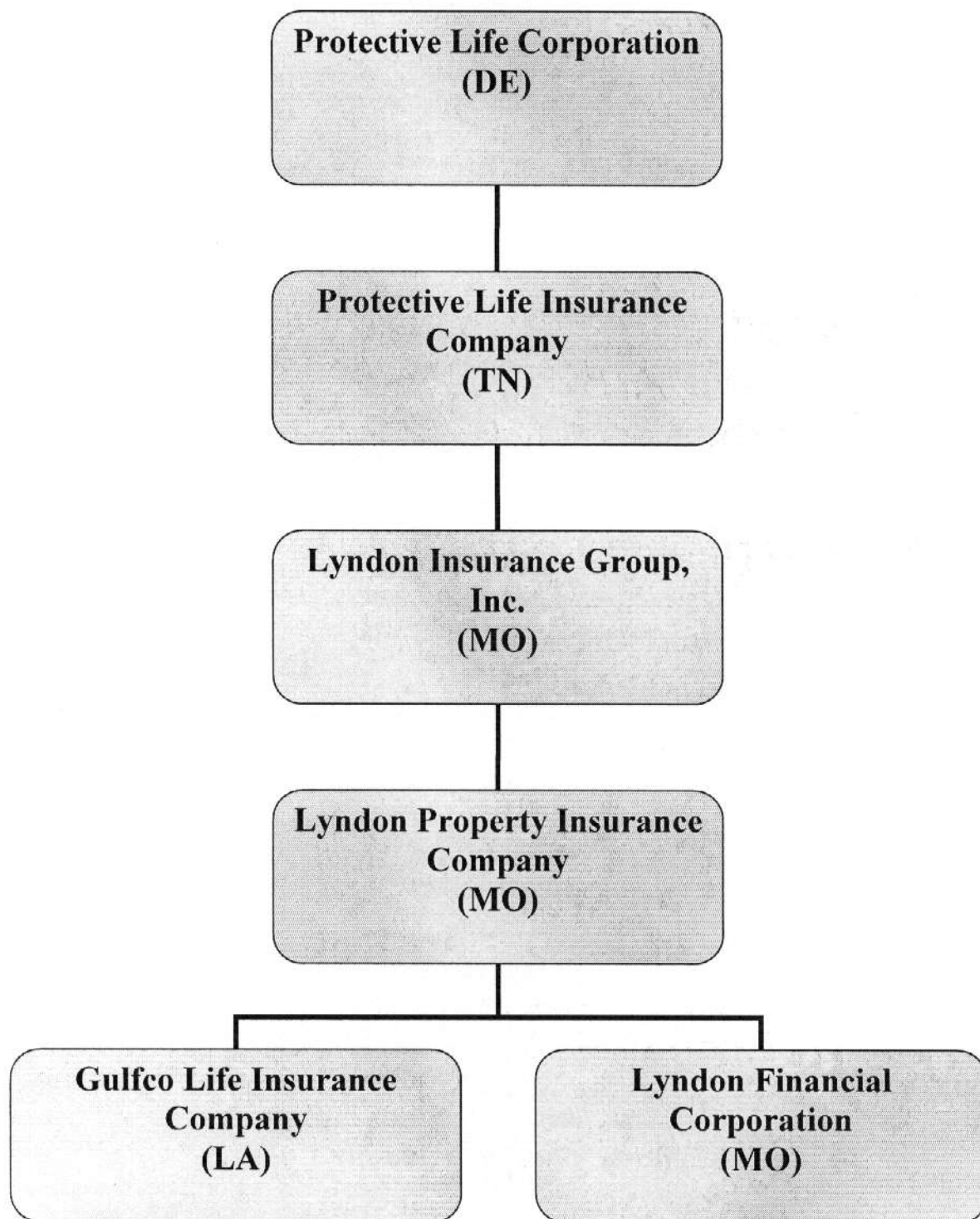
AFFILIATED COMPANIES

Holding Company, Subsidiaries and Affiliates

The Company is a member of an Insurance Holding Company System as defined by Section 382.010 RSMo (Definitions). The ultimate controlling person is Protective Life Corporation, a publicly traded corporation listed on the New York Stock Exchange. Protective Life Corporation became the ultimate controlling person on January 20, 2000, when its subsidiary, Protective Life Insurance Company, purchased all the outstanding common stock of Lyndon Insurance Group, Inc., the Company's parent.

Organizational Chart

The following organizational chart depicts the Insurance Holding Company System as of December 31, 2006. The chart includes only the Missouri domiciled insurer Lyndon Property Insurance Company, its parents and subsidiaries. A complete organizational chart is included in the Company's Annual Statement. All companies shown are wholly owned subsidiaries of their immediate parent company.



Intercompany Transactions

The Company entered into the following intercompany agreements with its ultimate parent, Protective Life Corporation:

Agreement for Investment Services

The Company and Protective Life Corporation executed an Agreement for Investment Services effective January 20, 2000, under which Protective Life Corporation provides investment services required by the Company including, but not limited to, the following: (i) research and analyze investment opportunities; (ii) execute purchases or sales pursuant thereto; (iii) collect and transmit to the Company any amounts paid on such investments; (iv) manage such investments for the benefit of the Company; (v) provide and maintain documentation which clearly and accurately discloses the precise nature of the investment transactions; and (v) provide and maintain documentation necessary for the preparation of accounting records and any required reports needed monthly, quarterly, or as part of statutory annual filings pursuant to such investment transactions. All investment transactions are reported and are subject to (i) authorization or approval by the Board of Directors of the Company properly recorded in the corporate records of the Company, and (ii) any and all applicable regulatory approvals.

Fees for all investment services are computed and settled monthly in accordance with a set fee schedule.

Agreement for Legal Services

The Company and Protective Life Corporation entered into an Agreement for Legal Services effective January 20, 2000, under which Protective Life Corporation provides legal services required by the Company including, but not limited to, the following: general corporate legal work, insurance related legal work, administrative and other regulatory legal work, litigation supervision and contracts. Charges for all legal services are the standard rates promulgated by the Legal Department of Protective Life Corporation. These rates are set forth in a written rate schedule and provided to the Company.

Effective January 1, 2004, the parties entered into a new Agreement for Legal Services providing the same legal services as the previous agreement, with an additional provision that the charges to the Company for all legal services include all direct and indirect allocable expenses. The method for allocating expenses to the Company conforms with customary insurance accounting practices consistently applied. Within fifteen days after the end of each calendar quarter, Protective Life Corporation submits to the Company a written statement of the amount owed for services pursuant to the agreement in that calendar quarter, which is then payable by the Company within fifteen days after the receipt of such written statement of charges.

Agreement for Administrative Services

Effective January 20, 2000, the Company and Protective Life Corporation agreed to include the Company as a participant in an Agreement for Administrative Services dated October 1, 1988. Under this agreement, Protective Life Corporation provides administrative services as required by members of its holding company system. The costs of the administrative services are shared

by members of the holding company system in accordance with generally accepted accounting principles. Such costs are accumulated and settled monthly.

Tax Allocation Agreement

Effective January 20, 2000, the Company's federal income tax return was consolidated with the federal income tax returns of its ultimate parent, Protective Life Corporation, and its subsidiaries. Federal income taxes are allocated in accordance with a Tax Allocation Agreement dated January 1, 1988, by and among Protective Life Corporation and its subsidiaries ("Affiliated Group").

For each taxable period, each member of the Affiliated Group computes its separate tax liability as if it had filed a separate tax return. The separate return tax liability of each member is computed in a manner consistent with the provisions of the Internal Revenue Code. The carryover of any tax attribute from a prior taxable year, which is not available in determining the consolidated tax liability of the group for such taxable period, is disregarded. Intercompany tax balances are settled not later than the due date for corresponding tax payments or upon receipt of a refund.

In 2004, the Tax Allocation Agreement was amended and restated primarily to clarify the allocation of income taxes to each member. If a member incurs a tax loss or generates a tax credit resulting in a carry forward, the member will not receive credit until the member can utilize the carry forward on a separate return basis. Any such carry forward shall not expire unless such amount is not utilized in the consolidated return.

The Company entered into the following intercompany agreements with other affiliates:

Deposit Agreements

Effective November 1, 2001, the Company entered into a Deposit Agreement with First Protection Corporation under which the Company agrees to invest as part of its investment activity the funds deposited with the Company by First Protection Corporation. The Company will make any deposited funds available to First Protection Corporation within five business days after receiving a written request from First Protection Corporation. The Company will pay interest on the funds at the same rate of return as the Company receives on its overall investment portfolio, net of investment expenses and including capital gains and losses. As of December 31, 2006, First Protection Corporation had \$14,110,000 on deposit with the Company.

Effective April 15, 2004, the Company entered into a Deposit Agreement with Dublin International Limited ("Dublin") under which the Company agrees to invest as part of its investment activity the funds deposited with the Company by Dublin. The Company will make any deposited funds available to Dublin within five business days after receiving a written request from Dublin. The Company will pay interest on the funds at the same rate of return as the Company receives on its overall investment portfolio, net of investment expenses and including capital gains and losses. This agreement was terminated and the outstanding balance on deposit was returned to Dublin prior to the sale of Dublin on December 31, 2005.

Effective March 1, 2006, the Company entered into a Deposit Agreement with Chesterfield International Reinsurance Limited ("Chesterfield") under which the Company agrees to invest as part of its investment activity the funds deposited with the Company by Chesterfield. The Company will make any deposited funds available to Chesterfield within five business days after receiving a written request from Chesterfield.

The Company will pay interest on the funds at the same rate of return as the Company receives on its overall investment portfolio, net of investment expenses and including capital gains and losses. As of December 21, 2006, Chesterfield had \$7,880,000 on deposit with the Company.

Administrative Services Agreements

Effective September 1, 2000, the Company entered into a service contract with Western Diversified Services, Inc. under which Western Diversified Services, Inc. provides administrative services for vehicle service and guaranteed asset protection contracts underwritten by the Company. The services provided include claims processing, commission processing, accounting, legal, compliance, investments, data processing, marketing, policyholder services and contract issue. Under the agreement, Western Diversified Services, Inc. periodically presents an itemized statement to the Company showing the costs incurred in providing the services. The statement is settled within fifteen days of presentation.

Effective July 22, 2005, the Company entered into a service contract with Lyndon Southern Insurance Company, Gulfco Life Insurance Company and Gulfco Insurance Services, under which Gulfco Life Insurance Company will provide certain services for the credit property, non-file and vehicle single interest policies produced and administered by Gulfco Insurance Services in Louisiana and underwritten by Lyndon Southern Insurance Company. The services provided by Gulfco Life Insurance Company include policy administration, appointing of agents, premium collection and remission, claims processing, commission processing and reinsurance agreement administration for the policies produced by Gulfco Insurance Services.

For the services provided under the agreement, Lyndon Property Insurance Company will pay to Gulfco Life Insurance Company 3% of the earned premiums on the policies produced. Since the sale of Lyndon Southern Insurance Company effective January 1, 2006, the Company has served as the direct underwriter of the Gulfco Insurance Services policies produced in Louisiana on a going-forward basis.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a financial institution bond, purchased by its ultimate parent Protective Life Corporation, that provides \$1,000,000 of fidelity coverage. This coverage meets the minimum amount of fidelity insurance recommended by the NAIC.

The Company is also a named insured on policies that provide the following coverage: crime; general liability; automobile liability; excess liability; directors and officers liability; errors and omissions liability; fiduciary liability; and employment practices liability. The Company's coverage appears adequate.

EMPLOYEE BENEFITS

The Company has no employees. Services are provided by affiliates under an administrative services agreement described under "Intercompany Transactions." Affiliates' employees are provided benefits typical of the industry including group health and dental coverage, group life insurance, short- and long-term disability, a 401(k) plan, a non-contributory defined benefit pension plan, vacation and sick leave, an employee assistance plan and tuition reimbursement. Employee benefit costs, including retirement costs, are included in intercompany charges from affiliates.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance, Financial Institutions and Professional Registration as of December 31, 2006, reflected below, were sufficient in par and market value to meet the deposit requirement for the state of Missouri in accordance with Section 379.098 RSMo (Securities to be deposited by all companies, kind and amount).

<u>Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Required Deposit</u>
US Treasury Note	<u>\$2,650,000</u>	<u>\$2,669,345</u>	<u>\$1,200,000</u>

Deposits with Other States

The Company also has funds on deposit with various other states. Those funds on deposit as of December 31, 2006, were as follows:

<u>State</u>	<u>Security</u>	<u>Par Value</u>	<u>Book Value</u>	<u>Fair Value</u>
Georgia	US Treasury Note	\$ 55,000	\$ 55,882	\$ 55,348
Louisiana	US Treasury Note	50,000	50,643	49,936
Massachusetts	US Treasury Note	100,000	106,412	103,020
New Mexico	US Treasury Note	350,000	372,443	360,570
North Carolina	US Treasury Note	500,000	511,774	505,290
Oregon	US Treasury Note	290,000	308,596	298,758
Virginia	US Treasury Note	265,000	281,993	273,003
Total		<u>\$ 1,610,000</u>	<u>\$ 1,687,743</u>	<u>\$ 1,645,925</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company is licensed in Missouri under Chapter 379 RSMo (Insurance other than life) to write property, liability, fidelity and surety, accident and health and miscellaneous insurance. The Company is licensed in all states except New York and in the District of Columbia.

The Company is a member of Protective Life Corporation's Asset Protection Division. The Company primarily markets extended service contracts, guaranteed asset protection (GAP),

inventory protection products (IPP), and to a lesser degree, collateral protection and credit property coverage. Auto dealers, recreational vehicle dealers and financial institutions comprise the Company's principal customer groups. The Company's products are marketed by employee field representatives, independent agents, third party administrators, financial institutions, and retail dealers.

Policy Forms & Underwriting; Advertising & Sales Material and Treatment of Policyholders

The Department has a market conduct staff that performs a review of these issues and generates a separate market conduct report. The Department's most recent market conduct examination of the Company occurred as of December 31, 1991.

The North Carolina Department of Insurance performed a market conduct examination of the Company for the period January 1, 2003 through December 31, 2005. A report was issued on April 11, 2007. The report did not disclose any issues having a significant impact on the Company's financial position.

REINSURANCE

General

Premiums written during the period under examination were reported as follows:

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Direct	\$ 139,097,901	\$ 186,378,824	\$ 232,071,488
Assumed: Affiliates	20,271,511	21,661,797	-
Assumed: Non-affiliates	15,554,114	11,337,278	12,720,951
Ceded: Affiliates	(12,485,480)	(18,642,209)	(44,434,414)
Ceded: Non-affiliates	<u>(99,385,662)</u>	<u>(126,020,250)</u>	<u>(90,909,112)</u>
Net Premiums	<u>\$ 63,052,384</u>	<u>\$ 74,715,440</u>	<u>\$ 109,448,913</u>

Assumed

St. Paul Guarantee Agreement

Effective July 1, 1999, the Company assumed, on a coinsurance basis, 100% of the liabilities related to DFS (Deutsche Financial Services) Mechanical Breakdown policies from St. Paul Guarantee Insurance Company, formerly London Guarantee Insurance Company (Canada). The agreement was amended October 1, 2006 to increase ceding commissions.

Lyndon Southern Agreement

Effective January 1, 1998, the Company assumed from Lyndon Southern Insurance Company 50% of the liability from business administered by Gulfco Insurance Services, Inc., a Company affiliate, and 100% of the liability from business administered by Life of the South Service Company. The business assumed includes property and casualty policies and certificates issued by Lyndon Southern Insurance Company in conjunction with credit, sales, financing, leasing,

loan or similar transactions by or through financial institutions and dealers. Prior to its sale in January 2006, Lyndon Sothern Insurance Company had been an affiliate of the Company.

Old Republic Agreement

Effective January 1, 2001, the Company assumed, on a coinsurance basis, 100% of the liabilities related to residual value, inventory protection, credit property, GAP (guaranteed asset protection), profit option, involuntary unemployment, automobile and non-automobile extended service contracts from Old Republic Insurance Company. This agreement was effected by a novation agreement among the Company, Old Republic Insurance Company and Old Republic Security Assurance Company. The agreement was amended in July 2005 to redefine the territory covered by the agreement.

Western General Agreement

Effective July 1, 2006, the Company assumed, on a coinsurance basis, 100% of the liabilities related to vehicle service contract, limited warranty, theft protection, tire and wheel protection and no-chargeback risks from Western General Insurance Company. The Company administers the affected business.

Ceded

Chesterfield International Agreement

Effective August 1, 2005, the Company ceded to Chesterfield International Reinsurance, Ltd., of the Island of Nevis ("Chesterfield"), an affiliate, 100% of the liability on automobile contractual liability contracts. Chesterfield retrocedes the liability to producer-owned reinsurance companies (PORCs). This agreement was effected by a novation agreement among the Company, Chesterfield and Dublin International, Ltd. The agreement was amended January 1, 2003 to add coverage for service contract business marketed or administered by Western General Warranty on a 20% coinsurance basis.

Chesterfield is not an authorized reinsurer. At December 31, 2006, the reserve credits were secured by funds withheld by the Company, by letter of credit and by trust accounts. The trust accounts were funded by the producer-owned reinsurance companies, naming the Company as beneficiary.

Crimson Agreement

Effective October 1, 2000, the Company ceded to Crimson Life Reinsurance, Ltd. (Turks and Caicos, British West Indies) 100% of the liability related to guaranteed asset protection (GAP) policies up to a maximum of \$50,000 per policy. Crimson Life Reinsurance, Ltd. is not an authorized reinsurer. At December 31, 2006, the reserve credits were secured by a trust account naming the Company as beneficiary.

Dealer Services Agreement

Effective January 1, 2002, the Company ceded to Dealer Services Reinsurance, Ltd., (Bermuda), an affiliate, 100% of the liability related to vehicle service contracts. Dealer Services retrocedes the liability to producer-owned reinsurance companies (PORCs). Dealer Services is not an

authorized reinsurer. At December 31, 2006 the reserve credits were secured by funds withheld by the Company, by a letter of credit and by trust accounts. The trust accounts were funded by the producer-owned reinsurance companies, naming the Company as beneficiary.

Founders Agreement

Effective January 1, 2002, the Company ceded to Founders Insurance Company, Ltd. (Bermuda), 90% of the liability related to lender's indemnity coverage policies. Effective January 1, 2003, the coinsurance percentage on new business increased to 100%. Founders Insurance Company is not an authorized reinsurer. At December 31, 2006, the reserve credits were secured by a trust account naming the Company as beneficiary. The Company also reported \$28 million in provision for reinsurance because the reinsurance recoverable exceeded the trust account balance.

Lexington Agreement

Effective May 10, 2006, the Company secured excess of loss coverage with Lexington Insurance Company (Delaware). The term of the coverage is two years. Covered property consists of the personal property of dealers which have purchased inventory protection insurance from the Company. The Company's retention is \$1 million per occurrence, subject to an annual aggregate deductible based on a percentage of average monthly outstanding exposures. The coverage has a limit of \$25 million per occurrence and in the aggregate for Flood or Earthquake with a \$10 million per occurrence/aggregate limit for Earthquake in California or the New Madrid Zone.

LOTS Agreement

Effective April 1, 2000, the Company ceded to LOTS Reassurance Company, Ltd. (Turks and Caicos, British West Indies) under a 100% quota share contract the contractual automobile liability business produced under a service agreement between Life of the South Insurance Company and Acceleration National Service Corporation. LOTS Reassurance is not an authorized reinsurer. At December 31, 2006 the reserve credits were secured by a trust account naming the Company as beneficiary.

London Life Agreement

Effective February 1, 2000, the Company ceded three blocks of business, on a coinsurance basis, to London Life International Reinsurance Corporation (Barbados). The reinsurance transaction was undertaken to reduce the statutory impact of Protective Life Insurance Company's purchase of Lyndon Insurance Group, Inc. Effective January 1, 2001, the agreement was amended to cede a fourth block of business. Effective July 1, 2001, the agreement was amended to add contracts assumed from Virginia Surety Company and to exclude any business issued after July 1, 2001 from Blocks II and III. Effective June 30, 2003, the agreement was amended to cede a fifth block of business. London Life International Reinsurance Corporation is not an authorized reinsurer. At December 31, 2006, the reserve credits were secured by funds withheld by the Company and by letters of credit

Spartan Agreement

Effective July 1, 2004, the Company ceded to Spartan Property Insurance Company (South Carolina) 100% of the of the credit property and collateral insurance produced by Security Finance in Florida or North Carolina. Spartan Property Insurance Company is not an authorized reinsurer. At December 31, 2006, the reserve credits were secured by a trust account naming the Company as beneficiary.

ACCOUNTS AND RECORDS

Independent Auditor

The Company's financial statements are audited annually by PricewaterhouseCoopers LLP. Workpapers from the 2006 audit were reviewed and included in this examination to the extent deemed appropriate.

Independent Actuary

Claims related reserves and other actuarial items were certified by Wayne Holdredge, MAAA of Towers, Perrin, Forster & Crosby, Inc. Consulting actuary Gregory S. Wilson, F.C.A.S., M.A.A.A., of Lewis and Ellis was retained by the Department to review the adequacy of reserves and other related liabilities. The consulting actuary found the reserves to be adequately stated.

Information Systems Review

In conjunction with this examination, Andrew Balas, Information Systems Financial Examiner with the Department, conducted a review of the Company's information systems. No material exceptions were noted.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2006, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the annual statement or comments regarding such are made in the "Notes to the Financial Statements," which follow the financial statements. The failure of any column to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual annual statement item.

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 338,142,806	\$ -	\$ 338,142,806
Preferred stocks	14,515,137	-	14,515,137
Common stocks	7,198,057	-	7,198,057
Cash and short-term investments	57,768,313	-	57,768,313
Receivables for securities	83,078	-	83,078
Investment income due and accrued	3,723,511	-	3,723,511
Uncollected premiums and agents' balances	2,683,086	-	2,683,086
Amounts recoverable from reinsurers	1,337,227	-	1,337,227
Net deferred tax asset	14,817,997	9,015,997	5,802,000
Electronic data processing equipment and software	84,456	84,456	-
Furniture and equipment	575,462	575,462	-
Other prepaid items	305,714	305,714	
Receivables from parent, subsidiaries and affiliates	3,365,297	-	3,365,297
Totals	<u>\$ 444,600,141</u>	<u>\$ 9,981,629</u>	<u>\$ 434,618,512</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses	\$ 19,703,432
Reinsurance payable on paid losses and loss adjustment expenses	801,765
Loss adjustment expenses	65,046
Commissions payable	5,172,116
Other expenses	4,173,639
Taxes, licenses and fees	2,607,826
Current federal and foreign income taxes	2,577,222
Borrowed money and interest thereon	22,104,023
Unearned premiums	154,761,333
Ceded reinsurance premiums payable	1,816,938
Funds held by company under reinsurance treaties	57,390,519
Provision for reinsurance	32,499,000
Payable to parent, subsidiaries and affiliates	5,754,161
Escheatable property	<u>65,578</u>
Total liabilities	\$ 309,492,598
Common capital stock	\$ 4,000,000
Gross paid in and contributed surplus	80,708,443
Unassigned funds (surplus)	<u>40,417,471</u>
Surplus as regards policyholders	\$ 125,125,914
Totals	<u><u>\$ 434,618,512</u></u>

INCOME STATEMENT

Premiums earned	\$ 83,182,438
Losses incurred	55,714,766
Loss expenses incurred	2,065,102
Other underwriting expenses incurred	<u>30,708,313</u>
Total underwriting deductions	88,488,181
Net underwriting loss	(5,305,743)
Net investment income earned	18,007,929
Net realized capital gains	<u>1,748,087</u>
Net investment gain	19,756,016
Net loss from agents' or premium balances charged off	(151,462)
Aggregate write-ins for miscellaneous income	<u>(2,528,627)</u>
Total other income	(2,680,089)
Net income before federal and foreign income taxes	11,770,184
Federal and foreign income taxes incurred	<u>5,063,176</u>
Net income	<u><u>\$ 6,707,008</u></u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders; December 31 prior year	\$ 163,235,475
Net income	6,707,008
Change in net unrealized capital losses	(245,317)
Change in net unrealized foreign exchange capital loss	(1,378,251)
Change in net deferred income tax	2,143,727
Change in nonadmitted assets	(1,370,928)
Change in provision for reinsurance	(31,965,800)
Surplus adjustments paid in	28,000,000
Dividends to stockholders	<u>(40,000,000)</u>
Change in surplus as regards policyholders for the year	<u>(38,109,561)</u>
Surplus as regards policyholders; December 31 current year	<u><u>\$ 125,125,914</u></u>

NOTES TO FINANCIAL STATEMENTS

None

GENERAL COMMENTS OR RECOMMENDATIONS

None

SUBSEQUENT EVENTS

None

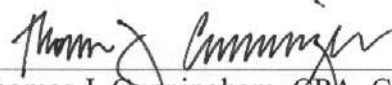
ACKNOWLEDGEMENT

The assistance and cooperation extended by Lyndon Property Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Richard Stamper, CFE, Amy Ford and Andrew T. Balas, CPA, CFE, AES, examiners for the Department of Insurance, Financial Institutions and Professional Registration participated in this examination. Consulting actuary, Gregory S. Wilson, F.C.A.S., M.A.A.A., of Lewis and Ellis reviewed the adequacy of reserves and other related liabilities.

VERIFICATION

State of Missouri)
) ss
County of St. Louis)

I, Thomas J. Cunningham, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.



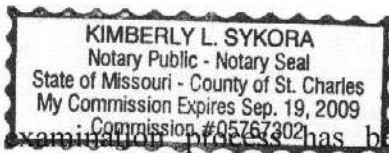
Thomas J. Cunningham, CPA, CFE
Examiner-in-Charge
Department of Insurance, Financial Institutions
and Professional Registration

Sworn to and subscribed before me this 15th day of April 2008.
My commission expires:

9-19-09

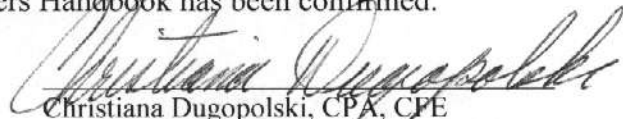


Notary Public



SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting work papers have been reviewed and approved. Compliance with the National Association of Insurance Commissioners procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.



Christiana Dugopolski, CPA, CFE
Audit Manager, St. Louis
Department of Insurance, Financial Institutions and
Professional Registration
Midwestern Zone, NAIC

Asset Protection Division

14755 North Outer Forty, Ste 400
Chesterfield, MO 63017
636-536-5600 / 800-950-6060



May 1, 2008

Frederick G. Heese, CFE, CPA
Chief Financial Examiner & Acting Division Director
301 West High Street, Room 530
P.O. Box 690
Jefferson City, Missouri 65102-0690

Re: Examination Report of Lyndon Property Insurance Company for the period ended December 31, 2006

Dear Mr. Heese:

We have reviewed the Examination Report and accept the report as is without any revisions.

Please include our response in the Examination Report and we look forward to your approval for distribution.
Should there be any questions or comments, please do not hesitate to contact us.

Sincerely,

Gregg O. Cariolano
Sr. Vice President and Treasurer
Lyndon Property Insurance Company

CC:

Downar, Mark
Griggs, Brent
Lanier, Laura

RECEIVED

MAY 05 2008

INSURANCE SOLVENCY
&
COMPANY REGULATION